



**CITY OF HOWARDVILLE, MISSOURI
YEAR ENDED JUNE 30, 2001**

**From The Office Of State Auditor
Claire McCaskill**

**Report No. 2001-116
December 12, 2001
www.auditor.state.mo.us**

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

December 2001

The following problems were discovered as a result of an audit conducted by our office of the City of Howardville, Missouri.

The city does not prepare annual budgets. State law requires the preparation of an annual budget which shall present a complete financial plan for the ensuing year. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost expectations for each area.

The city receives a grant of approximately \$117,000 each year from the state's Division of Family Services (DFS). The purpose of the grant is to provide office space for several DFS workers and for services related to job training and transportation for citizens in the Welfare to Work Program. The city passes through all the monies received for this grant to the Bootheel Community Development Corporation (BCDC), which provides these services for the citizens. There are potential conflict of interest concerns with the Mayor being president of BCDC. Minutes of the Board of Aldermen indicate the Mayor was involved in some discussions for matters involving the BCDC. City officials should avoid any type of involvement in city decisions that relate to themselves or businesses in which they have an interest. In addition, the city does not have a contract with the BCDC and does not monitor the BCDC's expenditures of grant monies.

The city did not obtain appraisals prior to selling two separate parcels of land for a total of \$12,500 to the Bootheel Community Development Corporation. Considering the close relationship between some city officials and BCDC, there is a greater need to ensure both sides receive fair and equitable treatment in all transactions between the city and BCDC. An independent appraisal would have provided better documentation that both the city and BCDC received fair and equitable treatment in these land transactions.

The city received Community Oriented Policing Services (COPS) grants totaling \$53,938. The city did not maintain adequate records to ensure grant reimbursements complied with the terms of the grant agreement and to ensure the city reported only eligible expenditures to the Department of Justice.

The city has not made arrangements to have an audit performed of federal financial assistance for the year ended June 30, 2001. Since the city spent over \$300,000 of federal awards during the year, it is required to obtain a Single Audit of these expenditures in accordance with federal law.

(over)

YELLOW SHEET

The city levies property taxes for parks and recreation, library, and public health services and collected \$1,138 during the year ended June 30, 2001, for each of these three tax levies. The city does not provide library and public health services and does not keep records to ensure parks and recreation taxes are spent to maintain the city park. The city needs to review these tax levies and ensure it meets the statutory requirements related to these taxes or discontinue collecting these taxes.

The city does not maintain records to document that its state motor vehicle-related revenues, totaling \$18,311 for the year ended June 30, 2001, are spent for street-related purposes as required by the Missouri Constitution.

The city does not prepare or publish semi-annual financial statements nor has the city obtained annual audits of its sewage system as required by state law. In addition, although the City Clerk indicated she prepares monthly financial reports for the Board of Aldermen, some reports could not be located and some reports did not include all financial activity of the city.

The city does not have formal written bidding procedures and does not solicit bids for significant purchases. Vendor invoices or their supporting documentation were not retained for some expenditures. The board does not approve the payment of expenditures or review supporting documentation prior to disbursing city funds. The city does not have a contract with the City Attorney and does not prepare IRS Forms 1099 as required. Items purchased from the State Agency for Surplus Property (SASP) by a consultant who is not a city employee were missing and the city had to reimburse SASP the fair market value for the missing items.

The audit also includes some matters related to salaries and payroll, board meetings and ordinances, segregation of duties, fixed assets, and the municipal court, upon which the city should consider and take appropriate corrective action.

All reports are available on our website: www.auditor.state.mo.us

CITY OF HOWARDVILLE, MISSOURI

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CLAIRE C. McCASKILL
Missouri State Auditor

To the Honorable Mayor
and
Members of the Board of Aldermen
City of Howardville
Howardville, Missouri 63869

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Howardville, Missouri. Our audit of the city included, but was not limited to, the year ended June 30, 2001. The objectives of this audit were to:

1. Perform procedures we deemed necessary to evaluate the petitioners' concerns.
2. Review compliance with certain constitutional provisions, statutes, ordinances, and attorney general's opinions as we deemed necessary or appropriate in the circumstances.
3. Review certain management practices which we believe could be improved.

Our audit was conducted in accordance with applicable standards contained in Government Auditing Standards, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances. In this regard, we interviewed applicable city personnel. We also reviewed board minutes, city policies and ordinances, and various city financial records.

Our audit was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention which would have been included in this report.

The accompanying History and Organization is presented for informational purposes. This information was obtained from the city and was not subjected to the auditing procedures applied in the audit of the city.

The accompanying Management Advisory Report presents our findings and recommendations arising from our audit of the City of Howardville, Missouri.

A handwritten signature in black ink that reads "Claire McCaskill". The signature is written in a cursive, flowing style.

Claire McCaskill
State Auditor

August 30, 2001 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits: Thomas J. Kremer, CPA
Audit Manager: Mark Ruether, CPA
In-Charge Auditor: David Martin, CPA

HISTORY AND ORGANIZATION

CITY OF HOWARDVILLE, MISSOURI
HISTORY AND ORGANIZATION

The City of Howardville was incorporated in 1962 and is currently a fourth-class city. The city is located in central New Madrid County. The population in 2000 was 342. The city government consists of a mayor and a four-member board of aldermen. The four board members are elected for two-year terms, one from each of the two wards each year. The mayor is elected for two years, presides over the board of aldermen, and votes only in the case of a tie. The Mayor, Board of Aldermen, and other principal officers at June 30, 2001, were:

Elected Officials	Term Expires	Compensation Paid For the Year Ended June 30, 2001	Amount of Bond
Clennon Farr, Mayor	April 2002	\$ 3,600	\$ 0
A.G. Sanders, Alderman	April 2003	360	0
Mary L. Johnson, Alderwoman	April 2002	360	0
Tommie Fountain, Alderman	April 2003	360	0
Robert Young, Alderman	April 2002	360	0
<u>Other Principal Officials</u>			
Ann Conner, City Clerk		15,882	10,000
Mary Brockman, Court Clerk		9,835	10,000
Tim Collins, Police Chief		21,547	5,000
Shawn Young, City Attorney/Prosecutor		3,600	0
Clois Taylor, Municipal Judge		2,100	10,000

The city also employs approximately 5 part-time and temporary employees.

Assessed valuation and tax rate information for tax year 2000 are as follows:

ASSESSED VALUATION

Real estate	\$ 594,910
Personal property	245,011
Total	<u>\$ 839,921</u>

TAX RATES PER \$100 ASSESSED VALUATION

General	\$ 0.55
Parks and Recreation	0.15
Health	0.15
Library	0.15
Total	<u>\$ 1.00</u>

The city has a general sales tax of one percent of retail sales within the city.

A summary of the financial activity of the City of Howardville for the year ended June 30, 2001, is presented on the next page.

CITY OF HOWARDVILLE
STATEMENT OF BANK RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH
YEAR ENDED JUNE 30, 2001

Account	Cash, July 1	Receipts	Disbursements	Cash, June 30
General	\$ 11,287	214,160	225,772	(325)
City Hall Maintenance	590	700	1,105	185
Savings, Union Planters Bank	35,977	8,634	11,425	33,186
Savings, Bank of New Madrid	580	13	0	593
Community Development Block Grant	26,459	349,924	363,351	13,032
Patrol Car Note	241	0	10	231
City Utility Costs	32	12,471	12,336	167
Payroll Tax	105	16,433	16,472	66
Sewer	1,634	16,151	17,040	745
Block Grant Escrow	148	1	149	0
Police	(366)	33,352	32,412	574
COPS/UHP	20,602	19,000	29,934	9,668
Municipal Court	262	26,761	24,316	2,707
Total	\$ 97,551	697,600	734,322	60,829

MANAGEMENT ADVISORY REPORT

CITY OF HOWARDVILLE, MISSOURI
SUMMARY OF FINDINGS

1. Federal Grants (pages 9-12)

The city receives annual grant money of approximately \$117,000 which is entirely passed on to the Bootheel Community Development Corporation (BCDC). The city does not have a contract with the BCDC to define the rights and responsibilities of each party regarding this grant, and the city does not monitor the BCDC's use of the grant money. There are potential conflict of interest concerns with the Mayor being president of BCDC. The City Clerk received \$300 monthly payments from BCDC for city-related duties; therefore, these payments appear inappropriate. The city does not have adequate supporting documentation for reimbursements and expenses for the Community Oriented Policing Services (COPS) program. The city has not made arrangements to obtain a required Single Audit of federal awards.

2. Land Sales (page 12)

The city did not obtain appraisals on two parcels of land sold to BCDC for \$12,500.

3. Salaries and Payroll Matters (pages 12-14)

The city has not adopted ordinances to establish the compensation and duties of city officials. Two board members received payments from the city in addition to their standard compensation, and it appears this additional compensation is not allowed by state law. The city does not follow its ordinance for employee vacation and sick leave and does not maintain records of vacation and sick leave earned and used. The city loaned \$125 to an employee and was not reimbursed for \$25 of this loan until we brought this to the city's attention approximately 22 months after the loan was made.

4. Restricted Revenues and Taxes (pages 14-16)

Property taxes collected for specific purposes have not been spent by the city in accordance with state law, and the city may need to discontinue collecting a portion of these taxes. The City Clerk, who also serves as the City Collector, did not file monthly or annual reports of collections or periodic listings of delinquent taxes as required. The city does not account separately for state motor vehicle fees and law enforcement training fees to ensure these revenues are only spent for allowable purposes.

5. Expenditures (pages 16-19)

The city does not have formal written bidding procedures and does not solicit bids for significant purchases. Vendor invoices or other supporting documentation were not retained for some expenditures. The board does not approve the payment of expenditures or review supporting documentation prior to disbursing city funds. The city does not have a contract with the City Attorney and does not prepare IRS Forms 1099 as required. The city allowed a consultant who is not a city employee to purchase items from the

State Agency for Surplus Property (SASP). The city had to reimburse the fair market value for some of these items that could not be located.

6. Board Minutes and Policies (pages 19-20)

The City Clerk has not typed some minutes on a timely basis, and some minutes were missing. Individual votes of board members are not recorded in the minutes. Agendas prepared for board meetings should be retained instead of being discarded. Minutes are not prepared for closed meetings. The city does not have a policy regarding public access to city records.

7. Budgets and Financial Reporting (pages 20-21)

The city does not prepare annual budgets. The city does not prepare or publish semi-annual financial statements. Some monthly financial reports were missing or were inaccurate. The city has not obtained an annual audit of its sewer system as required.

8. Financial Controls and City Ordinances (pages 22-23)

The City Clerk is responsible for essentially all record-keeping duties, and the board should consider appointing separate individuals to serve as City Treasurer and City Collector. The city maintains an excessive number of bank accounts. Many of the city's ordinances are old and outdated, and the city's official copy of the ordinances could not be located.

9. Fixed Asset Records (pages 23-24)

The city has not prepared and maintained permanent, detailed property records for general fixed assets.

10. Municipal Court (pages 24-25)

The duties of receiving, recording, and depositing court receipts are not adequately segregated. There is no reconciliation between the composition of receipt slips to the composition of deposits. The court does not prepare summary listings nor prepare a control ledger of amounts due the court. The court does not transmit some fines and court costs collected to the city. Police Officer Standards and Training Commission fees are not disbursed to the state as required.

CITY OF HOWARDVILLE, MISSOURI
MANAGEMENT ADVISORY REPORT

1.

Federal Grants

A. The city receives a grant of approximately \$117,000 each year from the state's Division of Family Services (DFS). The purpose of the grant is to provide office space for several DFS workers and for services related to job training and transportation for citizens in the Welfare to Work Program. The city passes through all the monies received for this grant to the Bootheel Community Development Corporation (BCDC), which provides these services for the citizens. Our review of this arrangement disclosed the following concerns:

1. The Mayor is also the president of BCDC. Although BCDC is a separate not-for-profit corporation and the Mayor apparently only receives reimbursement of expenses for his services, this arrangement creates potential conflict of interest concerns. Minutes of the Board of Aldermen indicate the Mayor was involved in some discussions for matters involving the BCDC.

City officials should avoid any type of involvement in city decisions that relate to themselves or businesses in which they have an interest. Discussions and decisions concerning transactions where a potential conflict of interest exists should be completely documented to provide assurance that no city official or relative has profited improperly. In addition, the Board of Aldermen should consider establishing an ordinance which addresses this type of situation and provides a code of conduct for city officials.

2. Prior to March 2001, the City Clerk received monthly payments of \$300 from the BCDC. It appears the only duties performed by the City Clerk related to these payments were recording grant money received from the state and writing a monthly check to the BCDC for the total amount received by the city. However, these appear to be city-related duties and part of her normal duties as City Clerk. Therefore, it appears inappropriate for her to receive additional compensation for performing these duties.

The grant agreement with the DFS allows certain administrative costs to be charged to the grant. Although the payments to the City Clerk have been stopped, it appears the city would incur costs for administering the grant. The city should calculate and document its administrative costs for this grant and withhold this amount from the monies paid to BCDC each month.

3. The city does not have a written contract with BCDC. A written contract should include payment terms, define the services to be provided by the BCDC, and clarify the responsibilities and expectations of both parties. Section 432.070, RSMo 2000, also requires all contracts to be in writing.
 4. The city does not monitor the activities of BCDC that are funded by the grant to ensure these activities comply with the city's grant agreement with DFS. At a minimum, the city should require BCDC to provide the city with periodic reports of activities funded with these grant monies. Without any documentation of how these funds are used, the city cannot document that it has complied with the terms of their grant with DFS.
- B. The city received Community Oriented Policing Services (COPS) grant awards from the U.S. Department of Justice (DOJ) for the period October 1998 through September 2001 to fund one full-time and one part-time police officer. The total grant award was \$54,782, and through June 30, 2001, the city received reimbursements of \$53,938. Our review noted the following concerns:
1. Grant reimbursements are periodically requested by the police chief, normally in lump sum amounts. No documentation is prepared to show that the reimbursement amounts agree to the federal share of eligible expenditures. Therefore, the city may have received grant reimbursements prior to incurring the related expenditures, which is prohibited by the grant regulations. For example, although the city received \$25,000 in June 2000 and \$6,000 in December 1999, the city only reported eligible grant expenditures of \$10,324 for the first six months of 2000. While the police chief indicated the \$25,000 was to cover expenditures from prior years which were not previously reimbursed, he could not provide any supporting documentation.
 2. Grant regulations require the preparation of quarterly reports showing total grant expenditures, as well as the federal share and the city's matching share of eligible grant expenditures. The city has not prepared the required quarterly reports on a timely basis, and as of August 30, 2001, no quarterly reports had been prepared for calendar year 2001. In addition, the city does not retain documentation to support the amount of grant expenditures reported on the quarterly reports. Although our review of quarterly reports for the year ended December 31, 2000, noted reported expenditures were approximately the same as the salaries paid to the city's police officers, there were no supporting worksheets or calculations to support the reported expenditures.

The police chief is responsible for filing the quarterly expenditure reports with the DOJ, requesting grant reimbursements, and serves as the custodian for all grant records. Although he indicated on several occasions he had supporting

documentation for the grant expenditures, he did not produce any documentation for our review. The city should consider requiring the City Clerk serve as the custodian of the grant records, and require the City Clerk to prepare or review the required reports for this grant. In addition, the city should ensure it locates or prepares documentation to support all grant expenditures and documents that it met the grant matching requirements.

- C. The city has not made arrangements to have an audit performed of federal financial assistance for the year ended June 30, 2001. Since the city spent over \$300,000 of federal awards during the year, it is required to obtain a Single Audit of these expenditures in accordance with OMB Circular A-133 and the Single Audit Act passed by the United States Congress in 1984, and amended in 1996 (Public Law 104-156).

WE RECOMMEND the Board of Aldermen:

- A.1. Avoid transactions that represent actual conflicts of interest or the appearance of conflicts of interest. City officials who have a conflict that is unavoidable should fully disclose their interest and should not discuss or vote on matters which involve them personally. Such matters and transactions should be completely documented so that the public has assurance that no city official or agent has profited improperly. City officials should ensure strict compliance with the law when conducting city business and should consider adopting a code of conduct for city officials.
- 2. Calculate the city's administrative costs for handling the DFS grant and withhold that amount from payments to the BCDC. Documentation of these costs should be retained.
- 3. Enter into a written agreement with the BCDC which documents the rights and responsibilities of both parties related to the DFS grant.
- 4. Monitor the BCDC's use of the grant monies to ensure the monies are spent in accordance with the grant agreement.
- B. Ensure adequate documentation is prepared or maintained to support all COPS grant reimbursement requests and expenditures claimed on quarterly expenditure reports, and ensure the city has met the grant matching requirements. In addition, the board should consider requiring the City Clerk to serve as the custodian of the COPS grant records and prepare or review all required grant reports.
- C. Ensure a Single Audit of its federal grant expenditures is obtained in accordance with OMB Circular A-133.

AUDITEE'S RESPONSE

A.1. *We will do a better job in the future documenting these transactions to help avoid any conflict of interest concerns.*

A.2-4,

B & C. *We agree and will implement these recommendations.*

2.

Land Sales

The city did not obtain appraisals prior to selling two separate parcels of land to the Bootheel Community Development Corporation (BCDC). One parcel sold in January 2000 for \$10,000 and was developed into a new subdivision in the city. The other parcel sold in September 2000 for \$2,500 which the BCDC used to construct an office building. By not obtaining professional appraisals to value the land prior to sale, there is less assurance the price the city received for the land was reasonable or represented the fair value of the property. The New Madrid County Assessor indicated this land has been tax exempt for years and has not been appraised by his office.

Considering the close relationship between some city officials and BCDC, there is a greater need to ensure both sides receive fair and equitable treatment in all transactions between the city and BCDC. An independent appraisal would have provided better documentation that both the city and BCDC received fair and equitable treatment in these land transactions.

WE RECOMMEND the Board of Aldermen obtain an independent appraisal of any property sold in the future.

AUDITEE'S RESPONSE

We will obtain independent appraisals for any land sold in the future.

3.

Salaries and Payroll Matters

A. The city has not adopted ordinances to establish the compensation and duties of its elected and appointed officials. Section 79.270, RSMo 2000, requires the compensation of officials and employees to be set by ordinance, and the salary of an official shall not be changed during the term of election or appointment.

Compensation rates set by ordinance, in addition to meeting statutory requirements, document the approved amounts to be paid and eliminate potential misunderstandings on the amount each city official and employee is to receive. Such ordinances should be passed prior to the election or appointment of applicable officials to help ensure the compensation of an official is not changed

during the term of office. Ordinance hearings provide for public input and information concerning the compensation paid. In addition, documentation of duties and job descriptions would clarify the duties and responsibilities of each official and employee and prevent misunderstandings.

- B. In addition to receiving the standard compensation for serving on the Board of Aldermen, two board members were compensated for performing mowing services for the city during the year ending June 30, 2001. One board member received \$700 and the other board member received \$200.

Section 105.458, RSMo 2000, states "no member of any legislative or governing body of any political subdivision of the state shall: (1) Perform any service for such political subdivision or any agency of the political subdivision for any consideration other than the compensation provided for the performance of his official duties. . . ."

The board should review this matter with legal counsel and determine whether the city should consider seeking repayment of these amounts.

- C. Records of vacation and sick leave earned and used are not maintained. The city does have an ordinance regarding vacation and sick leave, but the Mayor and City Clerk indicated that ordinance is outdated and the city uses a different policy.

The Board of Aldermen should follow its ordinance regarding vacation and sick leave or pass a new ordinance if it believes the current ordinance is outdated. Adequate documentation of leave time earned and used is necessary to ensure compliance with the ordinance.

- D. In September 1999, the board approved a \$125 loan to an employee that was to be repaid in five days. The loan was not repaid, and during the summer of 2000, the city withheld \$100 from his paychecks. Apparently city officials did not realize only \$100 had been repaid, and after we informed the City Clerk about this error, the remaining \$25 was withheld from the employee's salary 22 months after the original loan was made. There was no interest charged on this loan, nor was any kind of promissory note signed by the employee. The Board of Aldermen has no statutory authority to make loans to employees. Article VI, Section 23, of the Missouri Constitution specifically prohibits counties, cities, or other political subdivisions of the state from granting public money or things of value to any corporation, association, or individual.

WE RECOMMEND the Board of Aldermen:

- A. Establish by ordinance the duties and compensation of all city officials and employees.

- B. Discontinue paying additional compensation to board members. The board should review this matter with legal counsel and determine if it should seek reimbursement for the amounts paid to board members for mowing services.
- C. Ensure compliance with the city's ordinance regarding vacation and sick leave or amend this ordinance if the board determines it is outdated. In addition, the board should require the City Clerk to maintain records of vacation and sick leave earned and used.
- D. Discontinue the practice of loaning money to employees.

AUDITEE'S RESPONSE

- A, C,
& D. *We agree and will implement these recommendations.*
- B. *We will discuss this with the City Attorney and take appropriate action.*

4.	Restricted Revenues and Taxes
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- A. Property taxes collected for specific purposes have not been spent by the city in accordance with state law. In addition to the city's general property tax levy, the city levies property taxes for three specific purposes as allowed by Section 94.260, RSMo 2000, which include parks and recreation, library, and public health. During the year ended June 30, 2001, the city collected \$1,138 in taxes for each of these specific purposes. However, these taxes are all deposited in the city's General Fund and used for general city operations.

Our review of the city's use of these taxes noted the following:

- The city maintains a city park; however, there is no separate accounting of park revenues and expenditures to document that taxes collected for parks and recreation were used for expenditures related to the city park. These taxes should be deposited into a separate fund and used only for expenditures related to the city park, as required by Section 90.550, RSMo 2000. Furthermore, Section 90.520, RSMo 2000, requires the city to appoint a nine member board to control the expenditure of property taxes collected for parks and recreation.
- The city does not have a city library nor has the city appointed a library board. Section 182.200, RSMo 2000, requires all city library tax monies be deposited in the city treasury and paid over to the treasurer of the library board monthly. Section 182.170, RSMo 2000, requires the city to appoint a nine member board to control the expenditure of library tax monies. Since there is no city library, and apparently the city does not

have plans to start one, it would appear improper to continue to collect library property taxes.

- The city does not provide any public health services to city residents; therefore, it appears questionable for the city to collect public health property taxes.

While it appears these special purpose taxes have been levied by the city for a number of years, the city does not have copies of original ballots, ordinances, or policies defining the allowable uses of these monies. It appears the city has been inappropriately collecting some of these taxes, especially the library and health services taxes, and the city should consult with legal counsel to determine if any amounts should be refunded to taxpayers. If the city continues to collect these taxes, the city, along with any applicable boards appointed to control the expenditure of these taxes, should develop policies regarding the allowable uses of these taxes and ensure the policies comply with applicable state laws.

- B. The City Clerk, who also serves as City Collector, does not file monthly or annual reports of taxes collected with the board. In addition, the City Clerk does not prepare lists of all delinquent taxes. The City Clerk only prepares a list of real estate taxes that are three years delinquent so the city can sell the property at a tax sale.

Sections 79.310, 94.320, and 94.330, RSMo 2000, require the city collector to make monthly and annual reports to the board of aldermen of the amount of taxes collected and to prepare lists of delinquent taxes. The board is to examine and approve the lists and charge the city collector to collect the taxes due. Section 94.330, RSMo 2000, also provides that the board of aldermen may declare worthless any and all personal delinquent taxes deemed uncollectible.

Monthly and annual reports which comply with state law would help provide assurance taxes have been properly collected, written off, or determined to be delinquent.

- C. During the year ended June 30, 2001, the city deposited \$18,311 of state motor vehicle-related receipts into the General Fund. Article IV, Section 30, of the Missouri Constitution, requires that motor vehicle-related receipts apportioned by the state of Missouri be used for street-related purposes, including policing, signing, lighting, and cleaning of roads and streets. The city has not established a separate accounting for these receipts and related disbursements and could not provide total expenditures made for these purposes.

In addition, law enforcement training fees are not accounted for separately or maintained in a separate fund. During the year ended June 30, 2001, the city received approximately \$872 in training fees and identified no training-related

expenses. Section 590.140, RSMo 2000, requires law enforcement training fees to be used only for the training of law enforcement officers.

The city should maintain a separate fund or accounting of motor vehicle related receipts and law enforcement training receipts to ensure these revenues are used in accordance with the Missouri Constitution and state law.

WE RECOMMEND the Board of Aldermen:

- A. Consult with legal counsel and determine the propriety of collecting special-purpose property taxes in the absence of providing the related services. The board should determine if any of these taxes should be refunded to taxpayers. If these taxes continue to be levied, the board should ensure these taxes are used only for their intended purposes and comply with all applicable state laws.
- B. Require the City Clerk to prepare monthly and annual reports of taxes collected and delinquent lists that comply with state law.
- C. Establish separate funds or accounting for motor vehicle related revenues and law enforcement training fees and ensure these revenues are used in compliance with the Missouri Constitution and state law.

AUDITEE'S RESPONSE

- A. *We will consult with the City Attorney and take appropriate action.*
- B & C. *We agree and will implement these recommendations.*

5. Expenditures

- A. The city does not have formal written bidding policies and procedures and does not solicit bids for significant purchases. We noted the following purchases which were not bid:

Tractor and brush hog	\$12,250
Patrol car repairs	5,544
Patrol car	5,000
Insurance (2 years' premiums)	8,057
Roof repairs	1,200

Formal bidding procedures provide a framework for the economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders. Competitive bidding also helps ensure all parties are given an equal opportunity to participate in the city's business. Bids can be handled by telephone quotation, by written quotation, by sealed bid, or by

advertised sealed bid. Various approaches are appropriate, based on dollar amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids received and the reasons noted why the bid was selected. The bidding policy should also address procedures for opening sealed bids.

- B. Vendor invoices or other supporting documentation were not retained for numerous expenditures. During our review of specific expenditures, city officials could not initially locate vendor invoices for the majority of the selected items. Subsequently, city officials obtained or located vendor invoices for most of these items. The city also does not retain supporting documentation for amounts paid from the city's Community Development Block Grant (CDBG). This documentation is kept by the Bootheel Regional Planning Commission which administers the grant and is not reviewed by the city prior to payment.

All expenditures should be supported by paid receipts or vendor invoices to ensure the obligation was actually incurred and the expenditures represent appropriate uses of public funds.

- C. The Board of Aldermen does not approve the payment of expenditures nor review supporting documentation prior to the disbursement of city funds. Although the board minutes make a general reference that invoices are approved for payment, a listing of all disbursements is not prepared to accompany the minutes.

To adequately document the board's review and approval of all disbursements, a complete listing of bills should be prepared, signed or initialed by the board to denote its approval, and retained with the official minutes. In addition, supporting documentation should be reviewed by the board before payment is made to ensure all disbursements represent valid operating costs of the city.

- D. The city has appointed an attorney in the area to serve as City Attorney. The City Attorney receives \$300 a month from the city as a retainer and bills the city for additional services. The city has not entered into a written contract with this individual defining the services to be rendered and compensation to be paid for legal services. It appears questionable for the city to pay the \$300 monthly retainer unless there is a written agreement which clearly documents the services the city will receive for these payments.

Section 432.070, RSMo 2000, requires contracts of political subdivisions be in writing. A written contract, signed by the parties involved, should specify the services to be rendered and the manner and amount of compensation to be paid. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to provide protection to both parties.

- E. The city does not file Forms 1099 with the Internal Revenue Service. The Internal Revenue Code requires payments of \$600 or more annually for services

by nonemployees (other than corporations) be reported to the federal government on Forms 1099. During the year ended December 31, 2000, the city paid over \$600 to the city attorney and to an individual who works on the city's sewer system.

- F. The city allowed a consultant who works for the BCDC to purchase items on the city's account at the State Agency for Surplus Property (SASP). This consultant is not an official or employee of the city. Furthermore, of the eight items purchased by this individual and paid for by the city, four items with a total market value of \$160 could not be located during a review performed by SASP personnel. Because the property is donated by the federal government and the city only pays a nominal service charge to SASP for these items, federal regulations require the property be used for city purposes and the city had to reimburse the federal government the total market value of the missing items. According to city officials, these items were stolen from a storage facility in another city and were not intended to be used in the City of Howardville. As a result of the problems with this transaction, the city is no longer allowed to purchase items from the SASP.

To help ensure the propriety of city purchases, only city officials and employees should be allowed to enter into contracts on behalf of the city. In addition, any property purchased with city funds should only be used for the benefit of the city.

WE RECOMMEND the Board of Aldermen:

- A. Establish formal bidding policies and procedures, including documentation requirements regarding the bids or quotes received and justification for the bid selected and procedures for opening sealed bids.
- B. Ensure adequate supporting documentation is retained for all city expenditures, including expenditures for the city's CDBG.
- C. Review and approve all expenditures of city funds prior to the disbursements being made. In addition, the approval of disbursements should be adequately documented by including a listing of all approved disbursements in the board minutes.
- D. Enter into a written contract with the City Attorney for legal services which clearly documents the services to be provided and the compensation to be paid.
- E. Ensure IRS Forms 1099 are filed as required for prior years as well as in the future.
- F. Allow only city officials and employees to enter in contracts on behalf of the city and ensure any property purchases with city funds is used for the benefit of the city.

AUDITEE'S RESPONSE

We agree and will implement these recommendations.

6. Board Minutes and Policies

- A. The City Clerk takes notes of discussions held and actions taken by the board during board meetings. These notes are later typed to become the official board minutes. The City Clerk is often several months behind typing the official minutes. As of April 11, 2001, the most recent typed minutes were for the board meeting held September 14, 2000. In addition, several of the official typed versions of the minutes could not be located.

In addition to being required by state law, minutes serve as the only official permanent public record of decisions made by the board. Therefore, it is imperative that the minutes be prepared in a timely manner. Section 610.010, RSMo 2000, requires a journal or minutes of meetings shall be taken and maintained by public governmental bodies. In addition, the official minutes should be signed by the Mayor to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the board meetings.

- B. Section 79.130, RSMo 2000, requires ordinances to be approved by a majority of all the members of the board of aldermen, and the individual votes recorded. However, board minutes do not include details of the votes taken by specific board members for proposed ordinances to ensure ordinances are properly approved. Board minutes should include the details of votes taken for ordinance approval to document compliance with state law.
- C. City officials indicated a tentative agenda is prepared and posted for each board meeting; however, the agenda is discarded after the meeting. A copy of the agenda should be retained and kept with the board minutes to document that the city has adequately informed the residents of the business to be discussed during the board meeting and to ensure compliance with the Sunshine Law. The tentative agenda should summarize the topics to be discussed during the meeting and, when applicable, clearly indicate the reasons for holding a closed meeting.
- D. Minutes are not prepared for closed meetings. Although minutes for closed meetings are not specifically required by law, minutes constitute the record of proceedings of the board. Formal written minutes for closed meetings result in better record of city transactions, proceedings, and decisions. In addition, minutes help the city demonstrate that closed discussions relate to the specific reasons announced for closing the meeting pursuant to Chapter 610, RSMo 2000.

- E. The city does not have a formal policy regarding public access to city records. A formal policy regarding access and obtaining copies of city records would establish guidelines for the city to make the records available to the public. This policy should establish a contact person, an address for mailing such requests, and a cost for providing copies of public records.

Section 610.023, RSMo 2000, lists requirements for making city records available to the public. Section 610.026, RSMo 2000, allows the city to charge fees for copying public records, not to exceed the city's actual cost of document search and duplication.

WE RECOMMEND the Board of Aldermen:

- A. Ensure official typed minutes are prepared in a timely manner, signed by the Mayor, and retained in a permanent record as required by state law.
- B. Ensure votes taken by specific board members on proposed ordinances are documented in the board minutes.
- C. Ensure a copy of the agenda is retained as part of the official minutes of the board.
- D. Ensure minutes are prepared for all closed meetings.
- E. Develop written policies regarding procedures to obtain public access to, or copies of, public city records.

AUDITEE'S RESPONSE

We agree and will implement these recommendations.

7. Budgets and Financial Reporting

- A. The city does not prepare annual budgets. Section 67.010, RSMo 2000, requires the preparation of an annual budget which shall present a complete financial plan for the ensuing year.

A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost expectations for each area. A budget can also provide a means to effectively monitor actual costs by periodically comparing budgeted amounts to actual expenditures. A complete budget should include separate revenue and expenditure estimations by fund, and include the beginning available resources and reasonable estimates of the ending available resources. The budget should

also include a budget message and comparisons of actual revenues and expenditures for the two preceding fiscal years.

- B. The city does not prepare or publish semi-annual financial statements. Section 79.160, RSMo 2000, requires the board to prepare and publish semi-annual financial statements within one month of the end of each six-month period. In addition, Section 79.165, RSMo 2000, states the city cannot legally disburse funds until the financial statement is published.
- C. The City Clerk indicated she prepares monthly financial reports for the Board of Aldermen; however, these reports could not be located for every month and in some cases did not include all financial activity of the city. In addition, some of the cash balances presented on the reports did not agree with the cash balances in the city's bank accounts. Accurate and timely information about the city's finances is essential for the Board of Aldermen to make informed decisions while managing the resources of the city.
- D. The city has not obtained annual audits of its sewage system as required by state law. Section 250.150, RSMo 2000, requires the city to obtain annual audits, and the cost of the audits is to be paid from the revenues received from the system. Besides being required by state law, regular audits of the sewer system (and other city funds) would better enable the city to:
 - 1. Ascertain the stewardship of the public officials who handle and are responsible for the financial resources of the city.
 - 2. Determine the propriety and accuracy of its financial transactions.
 - 3. Ensure the revenues of the sewer system are adequate to meet the expense of providing this service.

WE RECOMMEND the Board of Aldermen:

- A. Prepare detailed annual budgets for all city funds, which include all relevant information required by state law.
- B. Publish complete and accurate financial statements semiannually as required by state law.
- C. Ensure the City Clerk prepares complete and accurate monthly financial reports.
- D. Obtain annual audits of the sewage system as required by state law.

AUDITEE'S RESPONSE

We agree and will implement these recommendations.

- A. The City Clerk is responsible for essentially all record keeping duties of the city, including duties which would normally be performed by a city treasurer and a city collector. These duties include receiving and depositing monies, preparing invoices for payment, signing checks, performing bank reconciliations, and preparing financial reports.

Neither the board nor other personnel independent of the cash custody and the record-keeping functions provide adequate supervision or review of the work performed by the City Clerk. The Mayor indicated he reviews the bank statements, but his review is not documented.

Attorney General's Opinion No. 24, 1955 to Dodds, concluded that in a fourth-class city the holding of the positions of City Clerk, City Treasurer, and City Collector, or any two of these three offices, by the same person at the same time would be incompatible. Holding two, or three, of these offices does not allow the separation of duties necessary for a proper evaluation and review of financial transactions. The current procedures jeopardize the system of independent checks and balances intended by state law.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating duties to the extent possible. In addition, the board should require someone independent of the cash custody and record keeping functions to perform periodic reconciliations of receipts to deposits and checks issued to disbursement records, and review bank statements and bank reconciliations. Furthermore, this review of records should be documented.

- B. The city maintains twelve bank accounts. Several of these accounts were established for very specific purposes, such as to pay city utility costs or loan payments on the city's patrol cars. The city incurred bank service charges and insufficient funds charges on several of these accounts, totaling \$725 during the year ended June 30, 2001, mainly because sufficient monies were not transferred into the accounts before payments were made. In addition, many of the bank accounts were not reconciled in a timely manner.

In addition, the city has a savings account at the city's former depository bank. The balance in the account was \$593 at June 30, 2001, and there has been no activity in the account since September 1995.

Except for a separate account required for the Community Development Block Grant, it appears that the remaining bank accounts could be consolidated to help

simplify the city's records and reduce the number of accounts that must be monitored and controlled. The city should use proper accounting and budgeting procedures to monitor and control revenues and expenditures required for specific purposes rather than setting up bank accounts.

- C. Many of the city's ordinances are old and outdated. City officials could not locate an official ordinance book for our review and we had to review the Municipal Court Clerk's copy of the ordinance book. The original ordinances appear to have been codified in the mid-1970's and have not been kept up-to-date to reflect all additions, deletions, and amendments to the ordinances.

Since the ordinances represent legislation passed by the Board of Aldermen to govern the city and its residents, it is important that the city's ordinances be maintained in a complete, well-organized, and up-to-date manner to give the taxpayers information on how the city is to be governed.

WE RECOMMEND the Board of Aldermen:

- A. Consider appointing separate individuals to the positions of City Clerk, City Treasurer, and City Collector and provide for adequate segregation of duties. If this is not possible, an independent review of the related records and activity should be performed periodically.
- B. Consider consolidating the city's bank accounts and manage any bank accounts to ensure the city does not incur service charges and insufficient funds charges. In addition, all bank accounts should be reconciled on a monthly basis.
- C. Ensure a complete and up-to-date set of ordinances is maintained.

AUDITEE'S RESPONSE

We agree and will implement these recommendations.

9. Fixed Asset Records

The city has not prepared and maintained permanent, detailed property records for general fixed assets, including the cost of land, buildings, equipment, and furniture owned by the city. In addition, the city has not prepared and maintained permanent, detailed property records for the sewer system. Also, annual physical inventories are not performed.

Property records for general fixed assets are necessary to ensure accountability for all items purchased and owned and for determining the proper amount of insurance coverage. To develop appropriate records and procedures for general fixed assets and the fixed assets of the sewer system, the city needs to undertake a comprehensive review of

all property owned by the city. Assets should be counted, tagged for specific identification, and recorded by description and serial number in a detailed property ledger at historical cost or estimated historical cost if the original cost is not available. The city should properly record all fixed asset transactions, and ensure the accuracy of the recorded fixed assets. Periodically, the city should take physical counts of its assets and compare to the detailed records.

WE RECOMMEND the Board of Aldermen maintain property records for general fixed assets and the fixed assets of the sewer system that include all pertinent information for each asset, such as tag number, description, cost, acquisition date, location, and subsequent disposition. In addition, annual physical inventories should be performed.

AUDITEE'S RESPONSE

We agree and will implement this recommendation.

10.

Municipal Court

- A. The duties of receiving, recording, and depositing court receipts are not adequately segregated. Currently, the Court Clerk performs all these duties. To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating the duties of receiving and depositing court monies from recording receipts. If proper segregation of duties cannot be achieved, at a minimum, there should be a documented supervisory review of the reconciliation between receipts and deposits.
- B. The municipal court accepts cash, checks, and money orders for fines and court costs. Although the receipt slips indicate the method of payment received, no one reconciles the composition of receipt slips to the composition of deposits. To ensure receipts are deposited intact, the composition of receipt slips issued should be reconciled with the composition of monies deposited.
- C. The Municipal Judge allows defendants to pay fines and court costs over a period of time. However, the court does not prepare summary listings of amounts due nor prepare a control ledger which can be reconciled to the individual account receivable records. Monthly or periodic listings of accounts receivable are necessary to facilitate the monitoring of amounts due to the court, to provide information to the Municipal Judge, and to help maximize collections. These listings should be reconciled on a periodic basis to the individual accounts receivable records.
- D. Although it appears the court rarely collects bonds, the Court Clerk indicated she maintains a balance in the court bank account to cover any bonds that need to be

refunded. At June 30, 2001, the balance in the court account was \$2,707. If no bond monies are collected or on hand, the balance in the court account should be zero after fines and court costs are transmitted to the city. Therefore, it appears the court is not transmitting some fines and court costs to the city.

Section 479.080, RSMo 2000, requires the municipal court to transmit all fines and court costs collected to the municipal treasury at least monthly. If a bond is held by the court which should be retained in the court bank account, the court should retain only the bond amount in the bank account and establish record keeping procedures to account for bond monies.

- E. The Police Officer Standards and Training Commission (POSTC) fees are not disbursed to the state. During the year ended June 30, 2001, the municipal court collected \$436 of POSTC fees which were turned over to the city and used for general city operations. Section 590.140.1, RSMo 2000, requires this fee be disbursed monthly to the state.

WE RECOMMEND the municipal court:

- A. Adequately segregate the duties of receiving, recording, and depositing court receipts. At a minimum, there should be a documented supervisory review of the reconciliation between receipts and deposits.
- B. Reconcile the composition of receipt slips to the composition of deposits.
- C. Prepare a periodic listing of accounts receivable and reconcile this information to the individual accounts receivable records. This listing should be provided to the Municipal Judge regularly for review.
- D. Remit all fines and court costs to the city each month as required by state law, and maintain records to account for any bond monies held.
- E. Determine the amount of POSTC fees collected and turned over to the city treasury and disburse that amount to the state, and ensure all future POSTC fees are disbursed monthly to the state.

AUDITEE'S RESPONSE

- A. *The Municipal Judge already reviews the records, and in the future will document those reviews.*
- B-D. *These recommendations will be implemented.*
- E. *We will disburse the \$436 immediately and will make monthly disbursements in the future.*

This report is intended for the information of the city's management and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.